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RUEHTA/AMEMBASSY ASTANA PRIORITY 0125
RUEHDE/AMCONSUL DUBAI PRIORITY 0095
RUEHDE/IRAN RPO DUBAI PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RHMFISS/CDR USEUCOM VAHINGEN GE PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEKDIA/DIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000919

SIPDIS

DEPT FOR EB/ESC, EUR/CARC
DEPT FOR EB/ESC, EUR/CARC
DEPT FOR S/EEE AMB MORNINGSTAR AND DSTEIN
DEPT FOR EB/ESC DAS DOUG HENGEL
DEPT FOR S/CT FOR GROBERSON, DKURSCH, CLARKS
DOE FOR LEKIMOFF, MBURPOE, ND DGOTTFRIED

E.O. 12958: DECL: 11/16/2019
TAS: ENRG, EPET, ECON, PREL, TU, IR, AJ
SUBJECT: AZERBAIJAN: DEVELOPING A PLAN B FOR GAS TRANSIT

REF: BAKU 916

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Classified By: Charge Don Lu
Reasons 1.4 (B,D, E)

Summary

1. (C) In the event that Turkey disappoints Azerbaijan once again on the on-going gas transit negotiations, SOCAR and the GOAJ are developing a "plan B" to market Azerbaijani gas, involving small but diversified gas sales to the north (Russia), south (Iran), and west (Bulgaria and Romania). However, industry experts doubt whether small gas sales would support the development of Shah Deniz II, an enormous gas field with an equally enormous \$20 billion development price tag.

President Aliyev: Developing a Plan B

2. (C) While Azerbaijani interlocutors are hopeful for a breakthrough with the Turks (reftel), they have also been very busy in recent weeks developing a plan B. This appears to be in a spirit of prudent planning, although some industry watchers also point to Azerbaijan's need to force action from the Turks. Azerbaijan has signed various (non-binding) MOUs related to gas sales over the past two months with Iran (gas swaps for Nachshavan), Russia, and Bulgaria. SOCAR Deputy Vice President Baylarbayov told Senior Eurasian Energy Advisor Dan Stein (reftel) that President Aliyev clearly signaled his intention to move forward on transit alternatives in a ground-breaking October speech. In turn, SOCAR is now moving to activate other options to diversify its exports. Baylarbayov told us that Azerbaijan could sell small amounts of gas north (Russia), south (Iran), and west (Bulgaria, Romania), to ensure diversification of its exports.

Bulgaria Option Gets High-Level Attention

3. (SBU) In particular, the mid-November discussions with

Bulgaria were widely covered in the Azerbaijani press. President Aliyev, Minister of Foreign Affairs Mammadyarov, Minister of Industry and Energy Natig Aliyev, President of SOCAR Rovnag Abdullayev, and SOCAR Vice-President Elsad Nassir traveled to Bulgaria, and the parties signed both governmental and commercial agreements on November 13. According to SOCAR VP Nassirov, Bulgaria requested to upgrade signatures to the ministerial level. SOCAR and the Energy Ministry indicated Bulgaria would like between 1 and 3 billion cubic meters (bcm) of Azerbaijani gas.

¶4. (C) VP Nassirov told us that SOCAR was investigating prospects for compressed natural gas (CNG) to Bulgaria, and liquefied natural gas (LNG) to Romania, "within the framework of Shah Deniz II." Energy Minister Aliyev told us that Bulgartransgaz and SOCAR agreed to launch a joint working group, and to further discuss a CNG feasibility study. "We're in no rush; we're perfectly willing to provide small volumes to different countries," he explained. Investors, he noted, however, want big volumes to get their investment back. Nassirov told us that SOCAR had spent 18 November briefing its Shah Deniz consortium members on the project with Bulgaria. He noted he himself was "skeptical" about the Bulgarian CNG option, but "we have to look at alternatives, a back-up to Turkish transit."

Bulgaria Push Closely Coordinated

¶5. (C) In an indication that the push for alternatives has been politically coordinated, Energy Minister Natig Aliyev, in his public remarks in Sophia, stated that Azerbaijan considered the Southern Corridor to be more than the Nabucco pipeline. Privately in our meeting with Senior Advisor Dan Stein (reftel), he admitted the Bulgaria option would do little to enhance Europe's general energy security, although it would assist with energy security of Bulgaria and Romania, countries of particular interest. "Bulgaria fears a

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repetition of the Ukraine-Russia events. Bulgaria suffered much," he explained.

Shah Deniz Members Not so Sanguine on CNG

¶6. (SBU) It remains an open question as to whether the current Shah Deniz consortium would accept the additional costs imposed by a CNG or LNG scheme. Statoil Lead Negotiator Bjorn-Helge Kvia and Turkmenistan Country Manager Odd Erik Flaatin told Dan Stein that Shah Deniz (SD) terms were "thin," and they noted there was simply no room in the fiscal terms to burden the consortium members with expensive additions to the gas transit system. They noted that if SD II moves ahead, the consortium will pay more than \$20 billion USD to develop the gas fields alone, and they would not take on any additional financial burden. We have heard similar complaints from BP.

Comment

¶7. (C) Azerbaijan's leadership, as per reftel, still hopes for a gas transit deal with Turkey. In Baku, it seems apparent that this option is in the long-term political and commercial interests of both parties. However, Azerbaijan is also acutely aware that they are utterly dependent on BOTAS to move this process. In order for Turkey to pay market prices for Azerbaijani gas, Turkey and BOTAS face their own pressures to liberalize their gas transit regime and the Turkish domestic gas market. Whether these issues can be synchronized before Shah Deniz II slips away into the 2020s remains an open question. However, it appears clear that Baku is increasingly prepared to swallow hard and accept an unpalatable plan B - backed up by all the political capital President Aliyev can muster, if Turkey does not negotiate in good faith.

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